

BEFORE THE  
POSTAL RATE COMMISSION  
WASHINGTON, D. C. 20268-0001

POSTAL RATE AND FEE CHANGES, 1997

Docket No. R97-1

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POSTAL RATE COMMISSION  
OFFICE OF THE SECRETARY

INTERROGATORIES OF ADVO, INC.  
TO UNITED STATES POSTAL SERVICE WITNESS  
WILLIAM M. TAKIS (ADVO/USPS-T41-2-5)

Pursuant to sections 25 and 26 of the Rules of Practice, Advo, Inc. (Advo) directs the following interrogatories to United States Postal Service witness William M. Takis. If the witness is unable to respond to any interrogatory, we request that a response be provided by appropriate USPS witness capable of providing an answer.

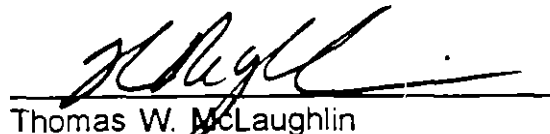
Respectfully submitted,



John M. Burzio  
Thomas W. McLaughlin  
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Counsel for ADVO, INC.

CERTIFICATE OF SERVICE

I hereby certify that I have on this date served the foregoing document upon all participants of record in this proceeding in accordance with section 12 of the Rules of Practice.

  
Thomas W. McLaughlin

September 17, 1997

ADVO, INC. INTERROGATORIES TO USPS WITNESS TAKIS (USPS-T-41)

ADVO/USPS-T41-2. Please refer to witness Takis's workpapers, Section IV.A, page 1.

- (a) For the facer/canceler operation cost pool ("CANCEL"), do the volume variable costs by subclass/category shown on page 1 include allocations of mixed-mail and not-handling-mail costs?
- (b) For the facer/canceler operation cost pool, please provide the following breakdowns of volume variable costs, separately for each subclass/category shown on page 1 of Takis's workpaper:
  - (1) Direct-item costs excluding costs for counted mixed-mail items;
  - (2) Counted mixed-mail item costs;
  - (3) Uncounted mixed-mail item costs;
  - (4) Mixed-mail identified container costs;
  - (5) Mixed-mail unidentified container costs;
  - (6) Not-handling-mail costs;
  - (7) Any other cost elements not included in 1-6 above (please specify).

ADVO/USPS-T41-3. Please refer to witness Takis's workpaper IV.B, pages 1 and 2. For the facer/canceler operation cost pool ("CANCEL"), you show total accrued cost of \$287.698 million, of which \$188.154 million is volume-variable and \$99.544 million is non-volume-variable. You show that First Class Mail accounts for 88.914 percent of total volume variable costs, or \$167.295 million. You have also calculated an incremental cost for First Class Mail of \$226.649 million. (If you disagree with any of these figures, please provide the correct figures and explain how they were derived).

- (a) Does this mean that if First Class Mail were removed from the system, the Postal Service's accrued cost for this cost pool, by your estimate, would become \$61.049 million (i.e., \$287.698 million total accrued cost minus \$226.649 million First Class incremental cost)?

- (b) Does this mean that if First Class Mail were removed from the system, the remaining total volume-variable cost for other classes for this cost pool would become \$20.859 million (i.e., \$188.154 million total v-v cost minus \$167.295 million First Class v-v cost)?
- (c) Does this mean that if First Class Mail were removed from the system, the volume variability for the facer/canceler operation cost pool would become 33.4 percent (i.e., \$20.859 million total v-v cost for the remaining classes divided by \$61.049 million accrued cost)?

If you disagree with any of the above figures, explain why, provide the correct figures, and show how you calculated them.

ADVO/USPS-T41-4. Please refer to your workpapers, Section IV.A and IV.B.

- (a) Please confirm that you used the 65.4 percent volume variability factor derived by witness Bradley for the "Cancel & Mtr. Prep" MODS activity (USPS-T-14, Table 7) to develop incremental cost estimates for the following cost components related to facer/canceler operations:

<u>Component</u>	<u>Takis Workpaper Source</u>	
	<u>Subclasses</u> <u>WP Section IV.A</u>	<u>Groups</u> <u>WP Section IV.B</u>
Cancel	pp. 1-6	pp. 1-2
Capital - Letters Cancel	13-18	5-6
Capital - Flats Cancel	13-18	5-6
Capital - Cull	13-18	5-6
Labor - Letters Cancel	19-24	7-8
Labor - Flats Cancel	19-24	7-8
Labor - Cull	19-24	7-8
Parts/Supplies - Letters Cancel	25-30	9-10
Parts/Supplies - Flats Cancel	25-30	9-10
Parts/Supplies - Cull	25-30	9-10

- (b) Please confirm that each of the above components represents a separate part of the total costs related to the facer/canceler operation (i.e., the costs shown in one component, such as "labor - letters cancel," are not included in or duplicative of costs shown in any of the other components, such as "cancel"). If not, identify and

quantify any overlaps between components, and explain how totals for these components may be calculated.

ADVO/USPS-T41-5. Please refer to Takis workpaper Section IV.B. and the components and workpaper references listed in (a) above. Subject to rounding differences, please confirm that for the combined ten cancel-related operation components listed in (a) above:

- (a) the total accrued cost is \$428.983 million.
- (b) the total volume variable cost is \$280.555 million.
- (c) the total non-volume-variable cost is \$148.428 million.
- (d) the total volume-variable cost for First Class Mail is \$253.952 million.
- (e) First Class Mail's volume-variable cost constitutes 90.5 percent of the total volume-variable cost.
- (f) First Class Mail's incremental cost is \$349.426 million.

If (except for rounding differences) you cannot confirm, please provide the correct figures, and show how you calculated them.